

Message Text

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ACTION EB-07

INFO OCT-01 IO-13 ISO-00 SSO-00 NSCE-00 INRE-00
AGRE-00 CIAE-00 COME-00 INR-07 LAB-04 NSAE-00
EPG-02 SP-02 STR-04 TRSE-00 FRB-03 OMB-01 L-03
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FM USMISSION GENEVA

TO SECSTATE WASHDC IMMEDIATE 8973

LIMITED OFFICIAL USE SECTION 1 OF 2 GENEVA 5587

FOR ANGEVINE, EB/FTD

EO 11652: N/A

TAGS: ETRD, IK, U.S.

SUBJECT: U.S.- HONG KONG TEXTILE NEGOTIATIONS

A. STATE 155953, B. HONG KONG 7780, C. HONG KONG 7018,
D. HONG KONG 7508

1. U.S. TEXTILE DELEGATION HAS DISCUSSED REQUEST BY DORWARD
FOR RESPONSE TO SPEAKING NOTE AT SOME LENGTH WITH HONG KONG
CHIEF NEGOTIATOR PETER TSAO HERE IN GENEVA. IN LIGHT OF THESE
CONVERSATIONS AND SUBSEQUENT MESSAGE FROM AMCONGEN HONG KONG,
BELIEVE MESSAGE PROPOSED IN STATE 155953 SHOULD BE MODIFIED
AS FOLLOWS:

2. BEGIN SUGGESTED MESSAGE: REPORTS FROM CONGEN AND REQUEST
LAST WEEK FROM HONG KONG REPRESENTATIVES HERE FOR CLARIFICA-
TION OF U.S. POSITION ON GROWTH RATES POINT TO SOME AMBIVA-
LENCE ON THE PART OF HONG KONG REGARDING CONCLUSION AND RATI-
FICATION OF BILATERAL AGREEMENT BASED ON GENERAL UNDERSTAND-
INGS REACHED BY DELEGATIONS TO TWO GOVERNMENTS IN GENEVA.
HONG KONG'S UNCERTAINTY ABOUT WHETHER TO PROCEED WITH
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PROPOSED AGREEMENT FOLLOWS PROTRACTED AND STRONGLY CON-
TESTED NEGOTIATIONS IN WHICH BOTH SIDES MADE SIGNIFI-
CANT CONCESSIONS. WITH THIS STAGE OF THE NEGOTIATIONS
NOW OVER, HONG KONG AUTHORITIES MUST NOW DECIDE WHETHER
THEY WISH TO PROCEED ON BASIS OF UNDERSTANDINGS REACHED
OR NOT. WASHINGTON AGENCIES REGARD THIS DECISION AS AN
INTERNAL ONE FOR HONG KONG IN WHICH INVOLVEMENT BY U.S.

OFFICIALS WOULD NOT BE HELPFUL.

3. DISCUSSIONS WITH CHIEF TEXTILE NEGOTIATOR PETER TSAO IN GENEVA MADE CLEAR THAT HE CONSIDERS AGREEMENT CONSISTENT WITH OVERALL PROVISIONS OF MFA. CERTAINLY U.S. CONSIDERS THIS TO BE THE CASE. MOREOVER, CAREFUL READING OF STATEMENT BY SECRETARY MARSHALL (SEE PARA 10) WHICH DORWARD REFERRED TO SHOWS THERE IS NO INCONSISTENCY BETWEEN AGREEMENT NEGOTIATED WITH HONG KONG AND POSITION OF U.S. ADMINISTRATION.

4. U.S.- HONG KONG INITIALED AGREEMENT AD REFERENDUM ON JUNE 23. THE KEY PROVISIONS INCLUDE A STANDSTILL IN GROWTH FOR THE FIRST YEAR, SLIGHTLY LOWER THAN PRESENT OVERALL GROWTH IN SUCCEEDING YEARS, SHARPLY REDUCED GROWTH IN IMPACTED CATEGORIES, A TIGHTER VISA SYSTEM WHICH IS AKIN TO IMPORT CONTROLS, AND EFFECTIVE HONG KONG ACCEPTANCE OF NEW U.S. CATEGORY SYSTEM. THE GENERAL PROVISIONS MORE THAN FULFILL U.S. NEGOTIATING MANDATE AND SHOULD SUBSTANTIALLY IMPROVE CHANCES FOR MFA RENEWAL WITH NO CHANGES.

5. THE KEY PROVISIONS ARE THOSE DEALING WITH GROWTH. ON APPROXIMATELY 50 PERCENT OF OVERALL 958 MILLION YARD LEVEL, WE HAVE ACHIEVED AN ANNUAL GROWTH REDUCTION FROM 6.25 PERCENT TO 3 PERCENT AND AN EFFECTIVE ANNUAL GROWTH LIMITED OFFICIAL USE

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RATE OF 2.4 PERCENT OVER THE FIVE YEARS. THIS GROWTH RATE APPLIES ALMOST COMPLETELY TO APPAREL AND UNIFORMLY TO SEVERELY IMPACTED CATEGORIES. ON THE ENTIRE 958 MILLION YARD LEVEL, WE HAVE A REDUCTION FROM 6.25 PERCENT TO AN EFFECTIVE ANNUAL GROWTH RATE OF 4.77 PERCENT.

6. OF PARTICULAR SIGNIFICANCE IS THE FACT THAT FOR THE FIRST YEAR THERE IS NO GROWTH IN ANY CATEGORY. THIS WAS ACHIEVED BY HONG KONG TACITLY ACCEPTING U.S. POSITION THAT THE NEW BILATERAL IS A COMPLETELY SEPARATE AGREEMENT AND, AS SUCH, DOES NOT REQUIRE THAT GROWTH BE GRANTED BETWEEN THE TWO SEPARATE AGREEMENTS. HENCE WE WERE ABLE TO GET THE "ENTRY LEVEL" FOR 1978 (FIRST YEAR OF THE NEW AGREEMENT) AT THE SAME LEVEL AS 1977 (THE LAST YEAR OF THE OLD AGREEMENT). HONG KONG, ON THE OTHER HAND, CAN PRESENT NEW FIVE-YEAR AGREEMENT AS PROVIDING GUARANTEED ACCESS TO U.S. MARKET AND 6 PERCENT GROWTH DURING LIFE OF AGREEMENT, I.E., FROM 1978 THROUGH 1982.

7. TSAO HAS GIVEN MIXED SIGNALS TO U.S. RE CURRENT STATUS OF RATIFICATION PROCEEDINGS IN HONG KONG. ON ONE HAND, TSAO HAS SAID HKG ANXIOUS FOR BOTH GOVERNMENTS

TO INDICATE FINAL APPROVAL OF AGREEMENT ASAP AND STRONG
DESIRE TO RELEASE DETAILS AS SOON AS AGREEMENT REACHED
AND PRIOR TO FORMAL EXCHANGE OF DIPLOMATIC NOTES. ON
THE OTHER HAND, TSAO HAS NOT YET INFORMED U.S. DEL THAT
HKG IS ITSELF READY TO SIGN.

8. TSAO TENDS TO DISCOUNT IMPLIED THREAT THAT HKG WOULD
NOT SIGN AGREEMENT UNTIL SATISFACTORY RESPONSE RECEIVED
TO DOWARD'S SPEAKING NOTE, BUT HAD INDICATED HIS BE-
LIEF THAT DORWARD WILL SET GREAT STORE ON RECEIVING SOME
TYPE OF FORMAL RESPONSE.

9. INFORMAL RESPONSE WAS PROVIDED DORWARD IN COURSE OF
NEGOTIATIONS WHEN, IN RESPONSE TO DIRECT QUERY BY TSAO,
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U.S. CHIEF NEGOTIATOR SMITH RESPONDED AS FOLLOWS: "(A)
MR. MARSHALL WAS TRYING TO SAY TO THE INTERNATIONAL
LADIES' GARMENT WORKERS UNION THAT THE U.S. POLICY ON
THE MFA REMAINED UNCHANGED; AND (B) HE (THE CHIEF NEGO-
TIATOR) WAS NOT SEEKING AN AGREEMENT INCONSISTENT WITH
THE ARRANGEMENT REGARDING INTERNATIONAL TRADE IN TEXTILES."

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ACTION EB-07

INFO OCT-01 IO-13 ISO-00 SSO-00 NSCE-00 INRE-00
AGRE-00 CIAE-00 COME-00 INR-07 LAB-04 NSAE-00
EPG-02 SP-02 STR-04 TRSE-00 FRB-03 OMB-01 L-03
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10. IN SUMMARY, U.S. HAS NEGOTIATED TOUGH BUT FAIR

AGREEMENT WITH HONG KONG; U.S. BELIEVES AGREEMENT CONSISTENT WITH MFA; AND WILLINGNESS OF HONG KONG TO INITIAL AGREEMENT IS SEEN AS CLEAR INDICATION THAT HKG DOES ALSO; NONETHELESS, DORWARD IS CONTINUING TO INSIST ON SOME RESPONSE; THEREFORE, RECOMMEND CONGEN SEND FOLLOWING MESSAGE TO DORWARD ASAP.

QUOTE. REFERENCE YOUR SPEAKING NOTE OF JUNE 17, I AM PLEASE TO RESPOND ON BEHALF OF THE UNITED STATES GOVERNMENT.

THE UNITED STATES GOVERNMENT HAS CAREFULLY REVIEWED THE MEMORANDUM OF UNDERSTANDING INITIALED BETWEEN U.S. AND HONG KONG REPRESENTATIVE IN GENEVA ON JUNE 23 AND FINDS THE AGREEMENT ENTIRELY CONSISTENT WITH BOTH THE MFA AND ADMINISTRATION POLICY AS REFLECTED IN THE JUNE SPEECH BY SECRETARY OF LABOR MARSHALL TO WHICH YOU DREW MY ATTENTION. FOR YOUR INFORMATION THE EXACT LANGUAGE USED BY SECRETARY MARSHALL IS AS FOLLOWS:

BEGIN EXCERPTS. I KNOW THAT YOU (MEMBERS OF THE INTERNATIONAL LADIES' GARMENT WORKERS UNION) ARE NOT ENTIRELY HAPPY WITH THE RESULTS OF THE MULTIFIBER ARRANGEMENT. LIMITED OFFICIAL USE

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THE GROWTH CLAUSE IN THIS AGREEMENT ALLOWS IMPORTS TO INCREASE AT A RATE OF 6 PERCENT PER YEAR. MEANWHILE, THE DOMESTIC TEXTILE INDUSTRY HAS BEEN GROWING AT LESS THAN 3 PERCENT A YEAR. IDEALLY, THE MOST EFFECTIVE SOLUTION TO THIS PROBLEM IS TO RENEGOTIATE THIS PORTION OF THE AGREEMENT. UNFORTUNATELY, THIS MAY BE DIFFICULT TASK.

...

THE MULTIFIBER ARRANGMENT IS LESS IMPORTANT IN ITSELF THAN IT IS IN ALLOWING US TO NEGOTIATE BILATERAL AGREEMENTS WITH INDIVIDUAL COUNTRIES. THIS YEAR WE WILL BE NEGOTIATIONS WITH HONG KONG ARE CURRENTLY UNDER WAY. REPRESENTATIVES OF THE LABOR DEPARTMENT, WHO ARE KEENLY CONCERNED ABOUT PRESERVING AMERICAN JOBS, ARE PART OF OUR NEGOTIATING TEAM. IT IS OUR HOPE THAT THESE INDIVIDUAL AGREEMENTS WILL GIVE OUR DOMESTIC TEXTILE AND APPAREL INDUSTRIES THE RELIEF THAT THEY SO CLEARLY NEED. END EXCERPTS.

YOU WILL NOTE THE THRUST OF SECRETARY MARSHALL'S STATEMENT EMBODIES THE BASIC PRINCIPLES OF U.S. POLICY IN THE TEXTILE TRADE AREA, NAMELY, THAT NO CHANGES NEED TO MADE IN THE MFA TO ENABLE TRADING PARTNERS TO WORK OUT MUTUALLY SATISFACTORY AGREEMENTS WHICH MEET THEIR SPECIFIC PROBLEMS -- AND TO NEGOTIATE THESE AGREEMENTS

WITHIN THE FRAMEWORK OF THE MFA.
THE U.S. HAS, AS YOU KNOW, CONSISTENTLY HELD THIS POSITION SINCE EARLY 1976, IT HOLDS THAT POSITION TODAY;
AND THE U.S. IS ACTIVELY PURSUING THIS POLICY OBJECTIVE IN THE CURRENT MFA RENEWAL NEGOTIATIONS NOW UNDER WAY IN THE TEXTILES COMMITTEE IN GENEVA.

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YOU WILL RECALL THAT OUR CHIEF TEXTILE NEGOTIATOR, MICHAEL B. SMITH, INFORMED YOUR CHIEF NEGOTIATOR, PETER TSAO, DURING THE COURSE OF THE NEGOTIATIONS THAT THE U.S. POSITION WITH RESPECT TO THE AGREEMENT WHICH HAD BEEN AGREED UPON IN OUTLINE THAT HE (SMITH) WAS NOT SEEKING AN AGREEMENT INCONSISTENT WITH THE MFA.

I WOULD LIKE TO TAKE THIS OPPORTUNITY TO RECONFIRM THAT POSITION AND TO STATE FURTHER THAT IT IS THE BELIEF OF MY GOVERNMENT THAT THE AGREEMENT REACHED BETWEEN THE U.S. AND HONG KONG IS FULLY CONSISTENT BOTH WITH U.S. POLICY AND WITH THE PROVISIONS OF THE MFA. END QUOTE.
END SUGGESTED MESSAGE.SORENSEN

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